

Message Text

SECRET

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73

ORIGIN EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 COME-00

AGR-05 L-02 H-01 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01

USIA-06 PRS-01 SAJ-01 SAM-01 NIC-01 IO-10 /086 R

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COMM/BEWT/PRC - WCLARKE (SUBS)

USDA/FAS - RBELL (DRAFT)

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P R 300114Z JAN 75

FM SECSTATE WASHDC

TO USLO PEKING PRIORITY

INFO AMCONSUL HONG KONG

S E C R E T STATE 021498

NOFORN

E.O. 11652: XGDS-2

TAGS: EAGR, ETRD, CH

SUBJECT: CANCELLATION OF US WHEAT CONTRACTS

REF: PEKING 145

1. BEGIN UNCLASSIFIED. COOK ANNOUNCEMENT THAT PRC HAS
CANCELLED CONTRACTS FOR 601,000 MT OF US WHEAT SCHEDULED
FOR SHIPMENT DURING 1975 RECEIVED FAIRLY WIDE US MEDIA
COVERAGE INCLUDING FRONT PAGE OF JANUARY 28 NEW YORK TIMES.
THIS AMOUNT REPRESENTS ALL OF COOK'S OUTSTANDING CONTRACTS
WITH THE PRC. END UNCLASSIFIED

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2. BEGIN SECRET/NOFORN. WE UNDERSTAND FROM A US LAWYER

THAT REPRESENTS COOK THAT THE FIRM RECEIVED THE FULL DIFFERENCE BETWEEN CONTRACT PRICE AND THE MARKET PRICE CURRENT AT TIME OF CANCELLATION. WE HAVE SEPARATE CONFIRMATION THAT, IF IT HAS NOT ALREADY DONE SO, PRC ALSO INTENDS TO CANCEL OUTSTANDING DREYFUS' CONTRACTS. OUR FIGURES SHOW SOME 500,000 MT OUTSTANDING ON DREYFUS CONTRACTS AS OPPOSED TO REFTEL FIGURE (360,000 MT). (USLO FIGURE IS ROUGHLY CONSISTENT WITH FIGURE CARRIED IN USDA'S US EXPORT SALES PUBLICATION. WE BELIEVE DISCREPANCY MAY BE ACCOUNTED FOR BY CARGOES REJECTED FOR TCK.) DREYFUS AND COOK CONTRACTS CONSTITUTE THE BALANCE OF OUTSTANDING US WHEAT SALES TO THE

PRC.

3. WE BELIEVE THAT PEKING'S REASONS FOR THE CANCELLATION OF US GRAIN SHIPMENTS ARE LARGELY ECONOMIC. WHEN US WHEAT WAS CONTRACTED FOR IN 1974, OVERALL CROP PROSPECTS FOR THE YEAR WERE UNCLEAR AND SOME OF THE WEATHER CONDITIONS AT THAT TIME POINTED TO POSSIBLE PROBLEMS. PEKING MAY HAVE WANTED SOME "INSURANCE" IN VIEW OF THE THEN-PREVAILING TIGHT WORLD WHEAT SUPPLY SITUATION. MAIN FACTORS IN TIMING OF DECISION TO CANCEL WERE (AS USLO POINTS OUT): THE PRC'S CURRENT TIGHT FOREIGN EXCHANGE SITUATION AND A NEED TO MINIMIZE IMPORTS WHEN POSSIBLE; A DESIRE TO GET OUT OF CONTRACTS MADE LAST YEAR AT A TIME WHEN WHEAT PRICES WERE HIGHER THAN THEY ARE NOW; AND A FULLER AND MORE OPTIMISTIC ASSESSMENT OF 1974 PRC DOMESTIC GRAIN PRODUCTION. LESSER FACTORS IN CHINESE DECISION INCLUDE POSSIBILITY OF CONTINUING PORT CONGESTION PROBLEMS AND CONTINUED DISSATISFACTION OVER THE QUALITY OF US WHEAT. THE FACT THAT PRC CANCELLED THE US CONTRACTS WHILE APPARENTLY CONTINUING TO TAKE DELIVERIES OF CANADIAN WHEAT IS FURTHER EVIDENCE THAT THE CHINESE WILL GIVE PREFERENCE TO TRADITIONAL SUPPLIERS WITH WHOM THEY HAVE LONG-TERM COMMITMENTS.

4. IT IS DIFFICULT TO DETERMINE WHAT ROLE, IF ANY, POLITICAL FACTORS PLAYED IN PRC DECISION, OR WHETHER CANCELLATIONS ARE A MANIFESTATION OF RECENT STATEMENTS BY HIGH PRC OFFICIALS ABOUT NOT BUYING ANY MORE US GRAIN.

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IT MAY BE SEVERAL MONTHS BEFORE WE KNOW WHETHER THE CURRENT CANCELLATIONS ARE IN FACT A SHORT-TERM ADJUSTMENT OF AGRICULTURAL IMPORT PRIORITIES FOR ESSENTIALLY ECONOMIC REASONS, OR WHETHER THEY ARE INDICATIVE OF A NEW POLICY NOT TO BUY US WHEAT. AT THIS POINT, WE IN THE DEPARTMENT AND SOME OTHER USG ANALYSTS TEND TO THE FORMER VIEW, AND WE DO NOT DISCOUNT THE POSSIBILITY THAT THE PRC WILL BE IN THE MARKET FOR US GRAIN LATER THIS

YEAR--DEPENDING OF COURSE ON PEKING'S ASSESSMENT OF ITS
OWN DOMESTIC CROP PRODUCTION AND RESERVE SITUATION.
COMMERCE DEPARTMENT 1975 TRADE ESTIMATES--SEE SEPTTEL--
SPECIFICALLY TOOK INTO ACCOUNT THE POSSIBILITY OF
FURTHER US GRAIN SALES.

5. AN INTERESTING SIDELIGHT IS THAT COOK ANNOUNCEMENT
HAD A DEFINITE, THOUGH APPARENTLY TEMPORARY, DEPRESSING
EFFECT ON WHEAT PRICES IN US COMMODITY MARKETS. KISSINGER

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